City of Walla Walla … the best of the best of the Northwest.

WALLA WALLA CITY COUNCIL
Work Session Agenda
October 25, 2021 - 4:00 p.m.

This will be a virtual meeting. A live stream of the meeting may be viewed on the City's website at the City Council webpage, through this Zoom meeting link or by calling 253-215-8782 and entering meeting ID 869 8555 8890#.

Mission: Dedicated to enhancing the quality of life in Walla Walla.

1. CALL TO ORDER

2. ACTIVE AGENDA

A. **2 hours** Water/Wastewater/Stormwater Financial Plan Presentation - Presented by Chris Gonzalez, FCS Group.

3. OTHER BUSINESS

4. ADJOURNMENT

Values: Service, Integrity, Collaboration, Equity, Leadership, and Community

ar-4356 **2 hours**

City Council - Work Session

Meeting Date: 10/25/2021

Item Title: Water/Wastewater/Stormwater Financial Plan Presentation

Submitted For: Ki Bealey, Public Works Department

Add'l Contributors:

Project No: n/a **Funding/BARS No.:** n/a

Financial Comments:

Please refer to the attached presentation.

Information

HISTORY:

Current item:

Financial planning presentation for the water, wastewater, and stormwater funds for the planning period of 2022 through 2027.

History:

The last financial plan for the water, wastewater, and stormwater funds was developed in 2015 and adopted by Council on December 2, 2015 (Ordinance 2015-31). The ordinance set forth rates and fees for the three funds from 2016 through 2021.

In 2017 the water and wastewater rates were updated to convert consumption units from 100 cubic feet (CCF) to gallons for usage (Ordinance 2017-40).

Key elements of the **2015 plan (2016-2021)** for the Water Fund included:

- $39.4 million in capital projects from 2015 – 2021
  - Dedicating $1.0M per year towards water pipe replacement/upgrades
  - Dedicating $0.5M per year towards water treatment, supply, and storage capital improvements
- 15% minimum fund balance (of operating expenses)
- $500k emergency reserve

Key elements of the **2015 plan (2016-2021)** for the Wastewater Fund included:

- $17.3 million in capital projects from 2015 – 2021
- 15% minimum fund balance (of operating expenses)
- 1% emergency reserve (of plant in service)

Key elements of the **2015 plan (2016-2021)** for the Stormwater Fund included:

- $4.3 million in projects from 2015 – 2021
- Increased weed control and street sweeping (equipment upgrades and 2 additional FTEs)

- 15% minimum fund balance (of operating expenses)
- $100k emergency reserve

New/additional key elements of this 2021 plan (2022-2027) include capital facilities planning from:

1. The Water System Master Plan Update (regulatory requirement) – Adopted by Council August 12, 2020.
2. America's Water Infrastructure Act: risk assessment and emergency response plan (federal mandate) – June 25, 2021.
3. The Well Master Plan – Adopted by Council August 25, 2021.
4. The General Sewer Plan Addendum (regulatory requirement) – Adopted by Council October 13, 2021.

November 20, 2019: Council adopted a plan to improve the fairness and equity of stormwater rates (Ordinance 2019-33).

October 28, 2020: Council passed Resolution 2020-108 authorizing the City Manager to execute a professional services contract with FCS Group to prepare financial plans for the water, wastewater and stormwater utilities. The major goal of this planning effort is to set funding levels and utility rates for the next four to six years based on a comprehensive financial model.

October 6, 2021: Staff and FCS presented options and recommendations to the Water/Wastewater/Stormwater Advisory Committee for review and discussion (AC meeting #1).

October 7, 2021: Staff and FCS presented options and recommendations to the Council Finance Committee for review and discussion (FC meeting #1).

October 14, 2021: Follow-up discussion with the Water/Wastewater/Stormwater Advisory Committee (AC meeting #2).

October 21, 2021: Follow-up discussion with the Council Finance Committee (FC meeting #2).

POLICY ISSUES:

Rates are set by Council in accordance with RCW 35.67.020. Utility rates are set to, "…provide sufficient funding to allow communities to build, operate, maintain, and reinvest in the water system that provides the community with safe and reliable drinking water and fire protection." (Water Rates, Fees, and Charges – American Water Works Association)

The City has an obligation to provide reliable utility services, at a standard that at least meets state and federal requirements.

There are multiple policy considerations when it comes to setting rates and fees such as:
Setting rates to reflect cost of service.
Setting Capital Facilities Charges for new water and sewer connections.
Minimum fund balance requirements.
Etc.

Customer rates, charges, and fees provide revenue to operate and maintain the utilities, provide funding for capital projects, and to ensure funding is sufficient for debt obligations.

PLAN COMPLIANCE:

STRATEGIC PLAN:
Strategic Initiative 2 - Long Term: Fix and Improve the City's Infrastructure.
Objectives:
1. Use technology to provide better service and to improve management of operations
2. Continue work on the City's Transportation Network (e.g. streets, sidewalks, bridges, etc.)
3. Manage the City's Urban Forest
4. Maintain City Buildings and Facilities

Strategic Initiative 5 - Mid Term: Achieve organizational and city resiliency
Objectives:
1. Long-term financial planning - for the organization (Short Term)
3. Environmental resiliency planning and preparation (Long Term)
4. Emergency Management planning and preparation (Long Term)

COMPREHENSIVE PLAN:
Land Use Goal 1 Walla Walla grows in a responsible way that maintains or improves the quality of life for its residents.
LU Policy 1.1 Accommodate new residential and commercial development in areas with available infrastructure and services.
LU Policy 1.2 Annex and provide services to all lands within the Urban Growth Area.

Land Use Goal 2 Walla Walla coordinates with neighboring communities and state agencies for the improvement of the region.
LU Policy 2.7 Continue coordination with the Confederated Tribes of the Umatilla Indian Reservation, the Army Corps of Engineers, and Walla Walla County Flood Control District to restore Mill Creek.

Economic Development Goal 2 Walla Walla has high-quality infrastructure to support economic development.
ED Policy 2.1 Provide the infrastructure needed for business and industries to locate in Walla Walla, including utilities, transportation connections, and suitable land capacity.

Environment and Natural Resources Goal 1 Water, air, and soil resources in Walla Walla are protected.
ENR Policy 1.1 Implement best management practices, where feasible, to ensure protection of surface and groundwater resources and ecosystems in locations where roadway and highway construction projects are occurring.
ENR Policy 1.6 Preserve and protect healthy mature trees in the community to the greatest extent possible, and promptly plant replacements when they cannot be saved.
ENR Policy 1.8 Protect the community from hazards, including, but not limited to, earthquakes, severe storms, wildfires and flooding.
ENR Policy 1.10 Plan for the anticipated impacts of climate change, and participate in broader efforts to minimize climate change.
Environment and Natural Resources Goal 3 Restore Mill Creek to a natural ecosystem and improve fish habitat while recognizing the vital flood control functions of the channel.

Capital Facilities and Utilities Goal 1 Walla Walla's capital facilities and utilities are well maintained and up-to-date to meet the demands of growth and economic development.
CFU Policy 1.1 Maintain updated plans for the provision of public utility services.
CFU Policy 1.2 Monitor all public or private water systems; regularly maintain public systems.

Capital Facilities and Utilities Goal 5 The sound fiscal management of government services and facilities promotes a transparent and collaborative relationship between government and residents.
CFU Policy 5.1 Plan for rehabilitation of the City's utility infrastructure to ensure safe, reliable, and efficient service.

CFU Policy 5.3 Anticipate and control demand for services to ensure that the City can maintain an appropriate level of service within its financial resources while serving new growth.

ALTERNATIVES:

Staff developed multiple alternatives for Council's consideration - see presentation.

CITY MANAGER COMMENTS:

Approved for City Council workshop discussion.

Attachments

Rate Presentation

2021 Utility Rate & CFC Update

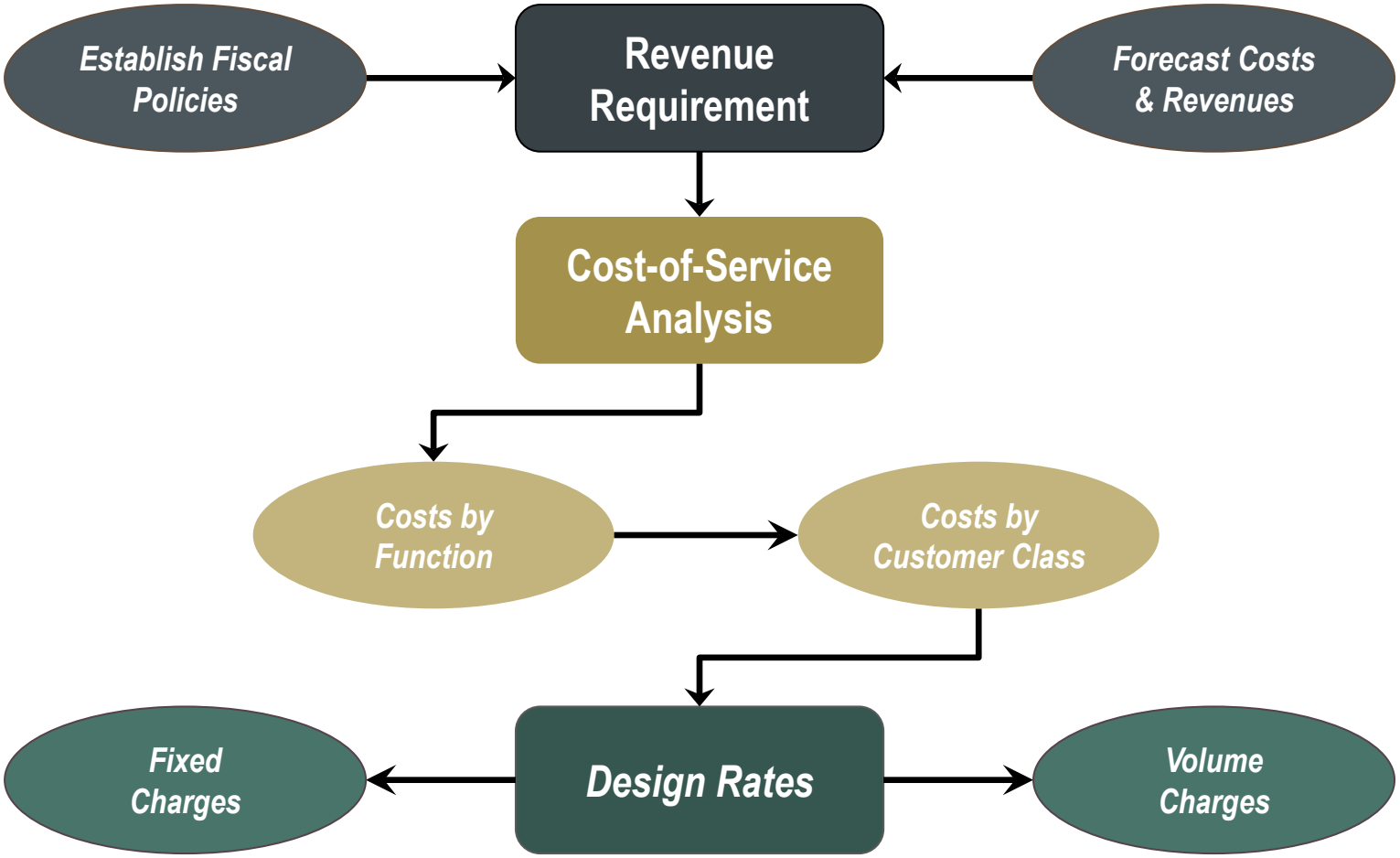
Chris Gonzalez, Senior Project Manager
John Ghilarducci, Principal
October 25, 2021

FCS GROUP
Solutions-Oriented Consulting

Agenda

- **Overview of Rate Study Methodology**
- **Key Assumptions**
- **Summary of Findings and Recommendations**
  - Water Rate Analysis
  - Stormwater Rate Analysis
  - Wastewater Rate Analysis
  - Water/Wastewater CFC Analysis
- **Questions/Discussion**

Overview of the Utility Rate Study Process



Key Assumptions

Annual Cost Inflation

- General (CPI): 3.0%
- Labor: 2.0 – 2.5%
- Benefits: 6.0%
- Construction Costs: 3.0%

Annual Growth Rates

- Customer Growth: 0.5% per year
  - » ≈ 70 – 80 equivalent units per year

Operating Forecast

- Generally based on 2021-22 Budget
- Taxes calculated on projected revenues

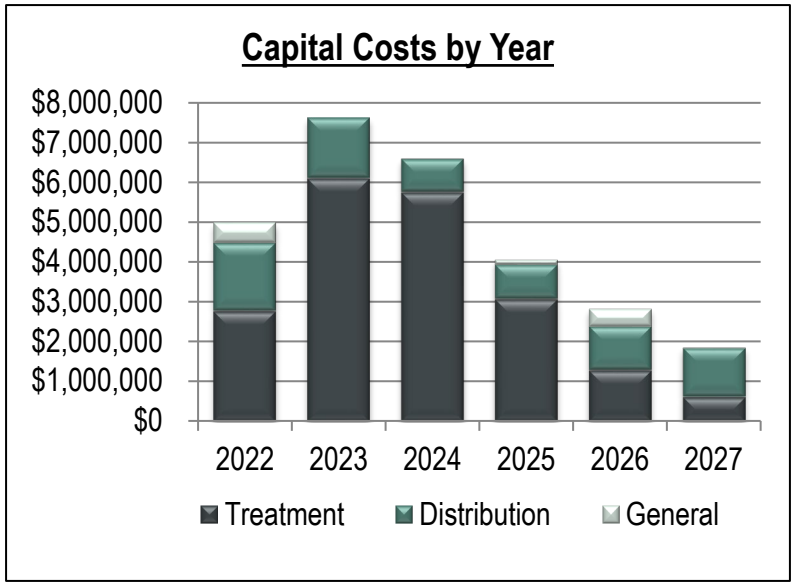
Reserve Policies

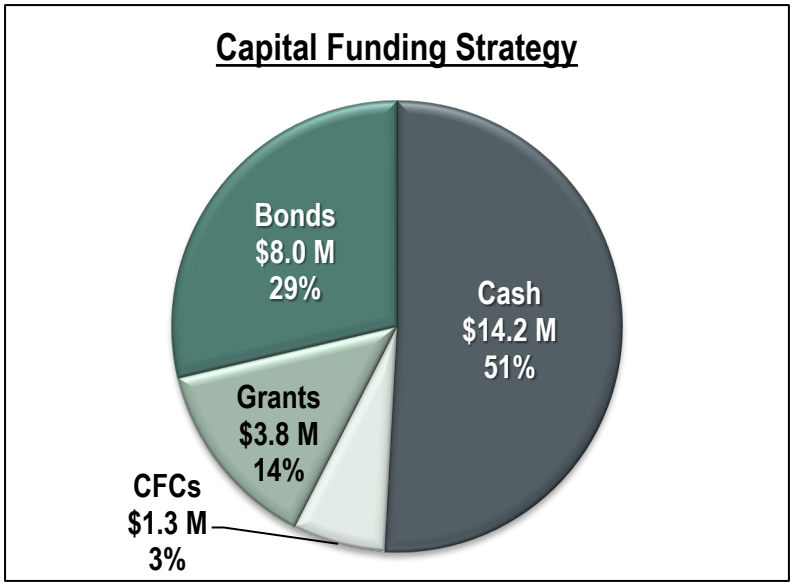
- Minimum balance maintained as greater of $500,000 or 10% of O&M plus debt service
  - » Water: $1.4 million based on 2021 Budget
  - » Stormwater: $500,000 (minimum)
  - » Wastewater: $1.0 million based on 2021 Budget

Water Rate Analysis

- **Financial Plan**
  - » Recommended CIP
  - » Alternative Scenarios
- **Cost-of-Service Analysis**
  - » Mill Creek Glen
  - » Other City Customers

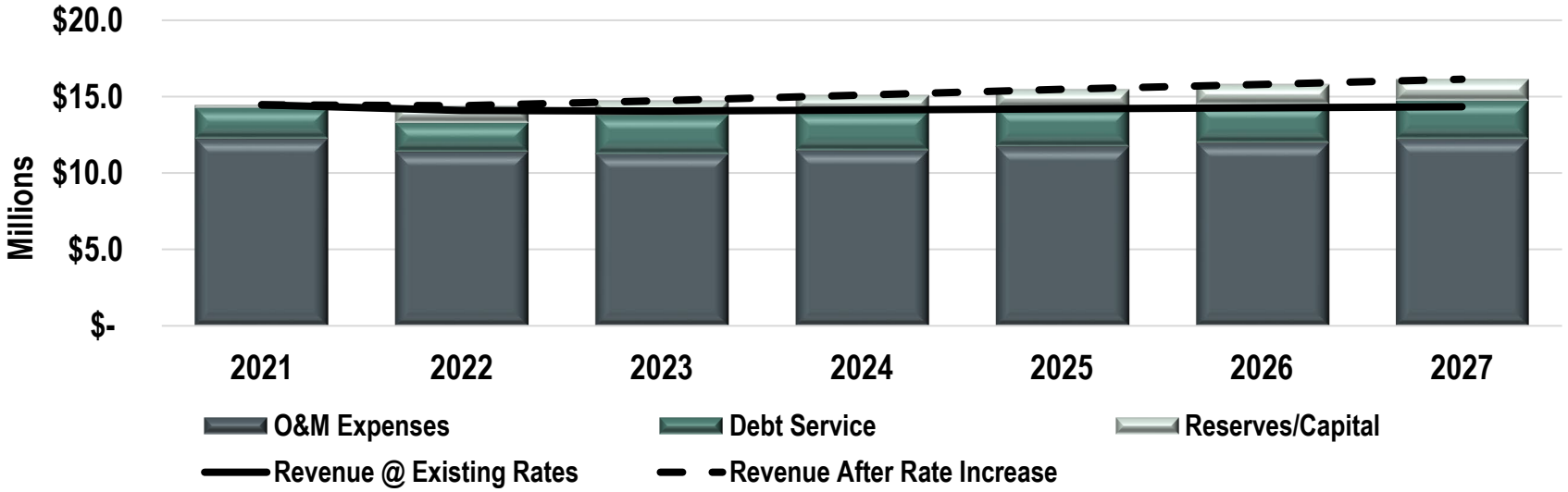
Water Capital Needs Forecast





- **$27,889,000 in capital projects from 2022 – 2027**
  - » Supply/Treatment: $19,560,000
  - » Planning/General: $1,087,000
  - » Distribution: $7,242,000
- **Grants and cash resources expected to cover 71% of the projected cost**
  - » Remaining 29% funded by $8.8 million bond (to provide $8.0 million in net proceeds)
    - – Expected to increase annual debt service by $647,000

Water Financial Plan (Recommended CIP)



Water Rate Forecast	Existing	Proposed						
	2021	2022	2023	2024	2025	2026	2027	Cumulative
Annual Rate Increase		**3.0%**	**3.0%**	**2.5%**	**2.5%**	**2.0%**	**2.0%**	**16.0%**
Monthly Residential Bill @ 15 ccf	$75.80	$78.09	$80.42	$82.41	$84.43	$86.10	$87.94	
Change From Prior Year		+$2.29	+$2.33	+$1.99	+$2.02	+$1.67	+$1.84	+$12.14

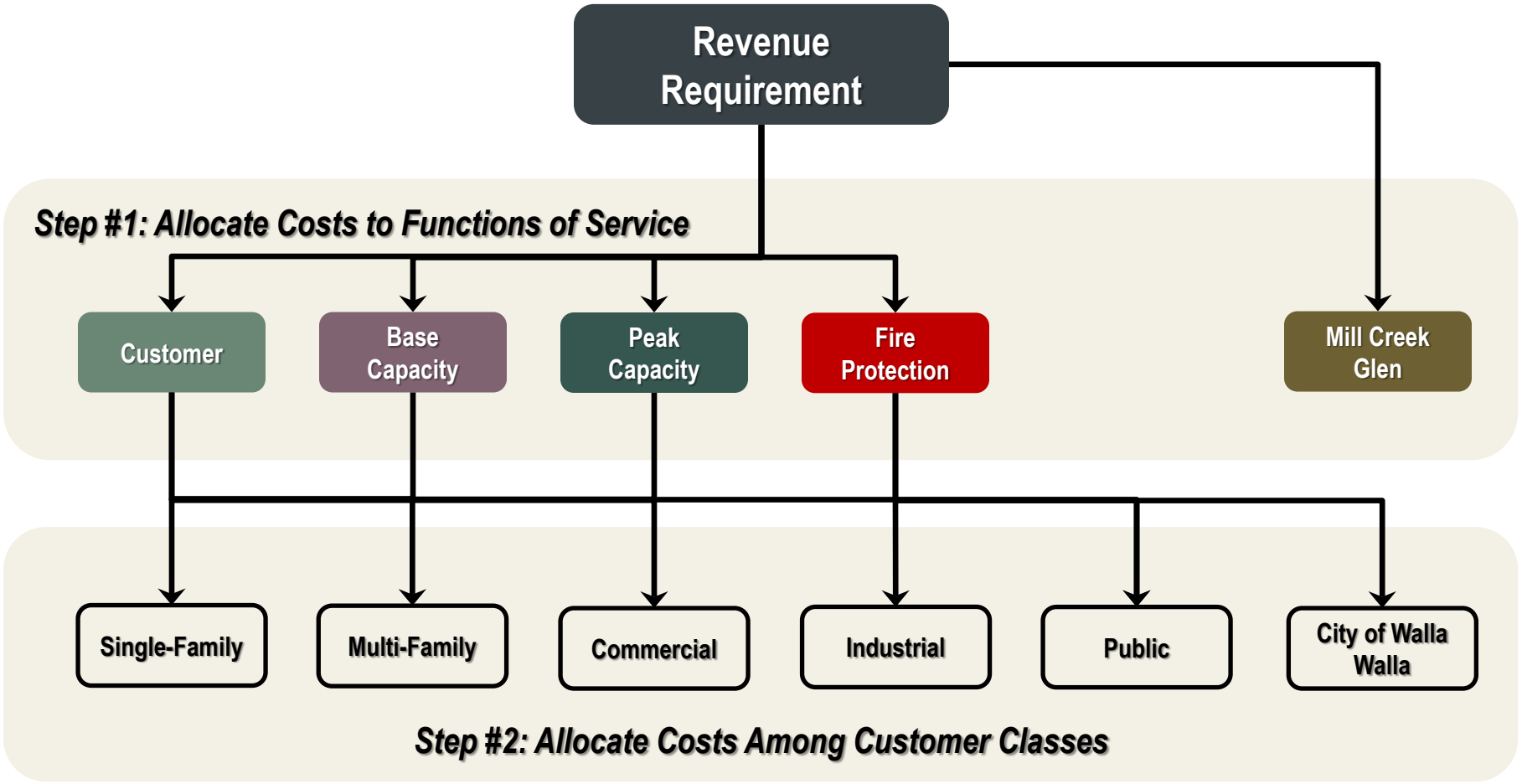
- **Existing rates expected to be adequate to cover costs through 2025**
- **Rate increases needed to generate cash for capital projects and related debt service**

Water Financial Plan Scenarios

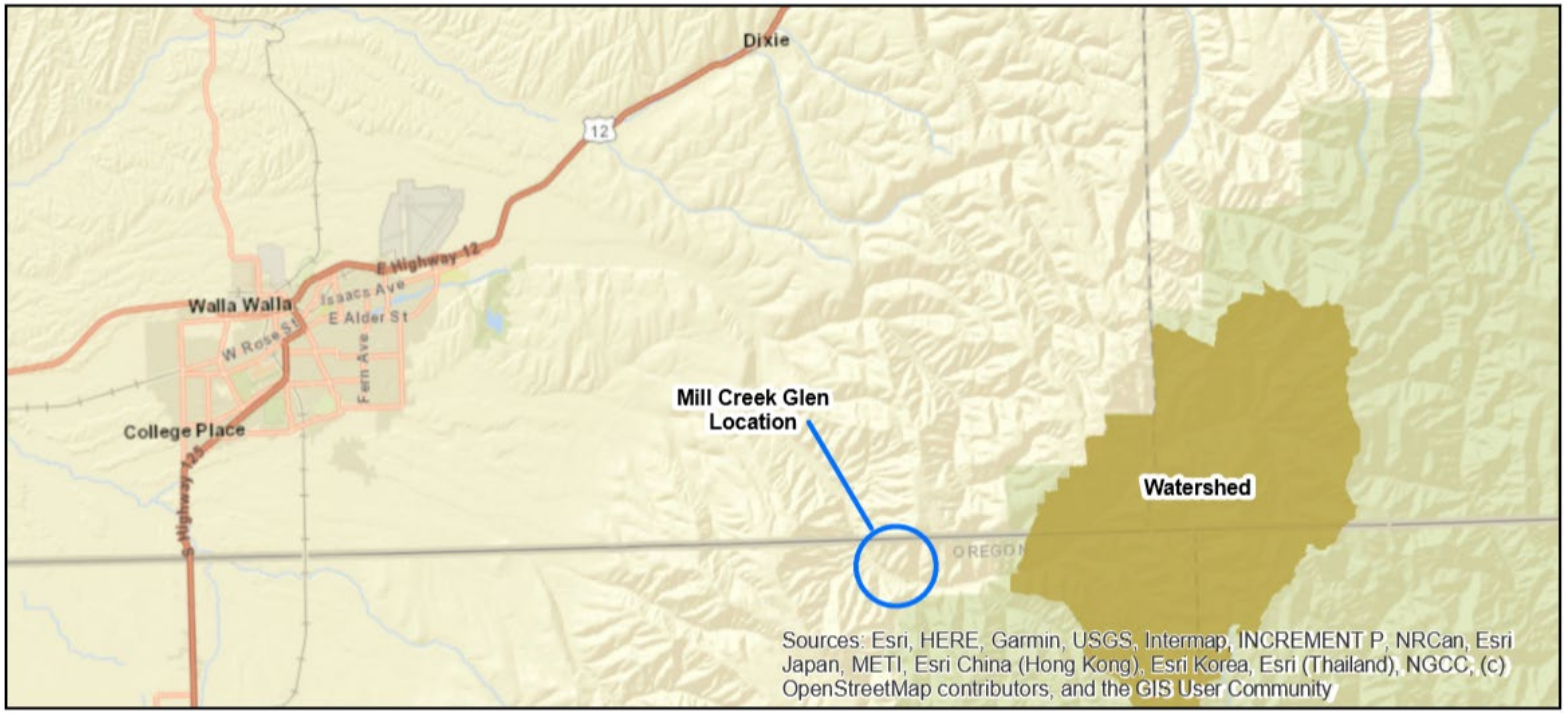
Scenario	Description	Monthly Residential Water Bill @ 15 ccf					
		2022	2023	2024	2025	2026	2027
Existing Rates	Currently adopted rates (2021)	$75.80	$75.80	$75.80	$75.80	$75.80	$75.80
Recommended CIP	No changes to O&M; CIP as recommended	+$2.29	+$4.62	+$6.61	+$8.63	+$10.30	+$12.14
Delayed CIP	Delay $8.8 million of capital spending to after 2027	+$0.71	+$1.58	+$2.30	+$3.03	+$3.91	+$4.64
Additional FTE (Treatment)	Add 1 FTE @ $105,000 to meet LOS recommendation for wells	$0.00	$0.00	+$0.37	+$0.90	+$1.83	+$1.70
Additional FTE (Distribution)	Add 1 FTE @ $106,000 for valve turning program	$0.00	$0.00	+$0.37	+$0.90	+$1.83	+$1.70

- **Adjustments to 2022 – 2027 CIP for 'Delayed CIP' Scenario:**
  - » Keep participation in IRRP/TBD projects
  - » Include only one other distribution project due to likelihood of failure
  - » Prioritize critical/regulatory supply/treatment projects (other assets can run to failure)

Methodology: Water Cost-of-Service Analysis



Background: Mill Creek Glen



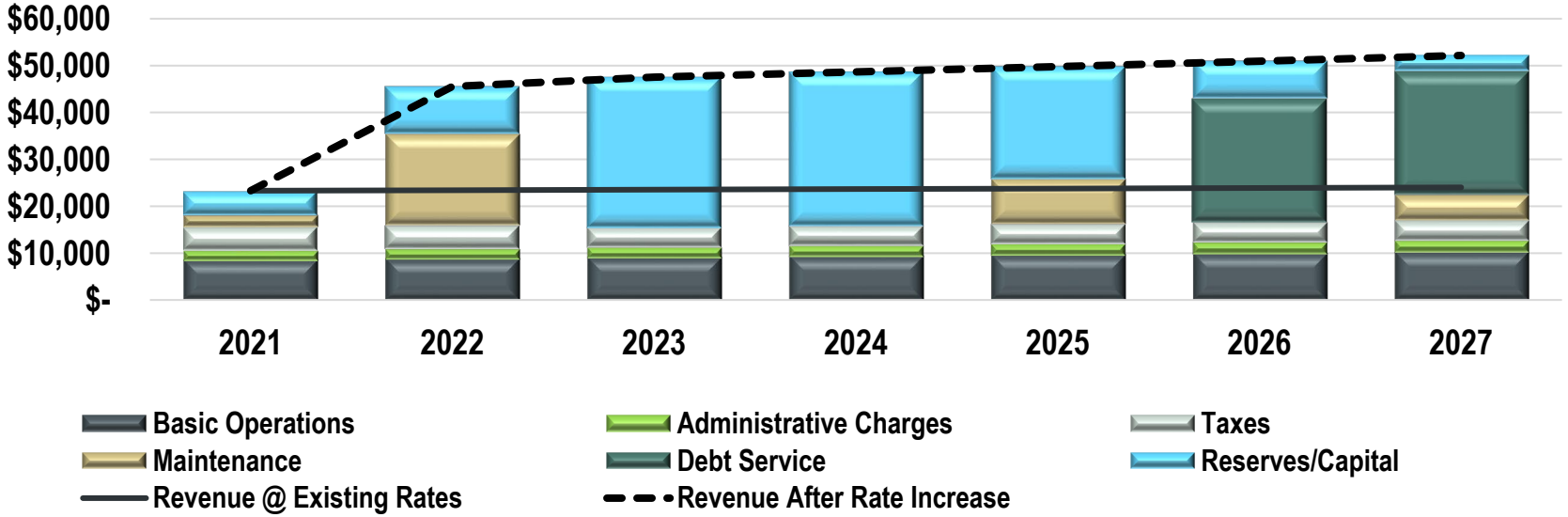
- **City operates a satellite water system at Mill Creek Glen**
  - » Serves approximately 35 connections
- **City requested an evaluation of the cost of serving Mill Green Glen system as a standalone enterprise**

Mill Creek Glen Cost-of-Service Analysis

- **Identified annual cost of serving Mill Creek Glen includes:**
  - Basic Operations (2021): $8,500
  - Administrative Charges (2021): $2,000
  - City & State Taxes (2021): $5,000
  - Maintenance (2021 – 2027 Average): $5,300
  - Debt Service (Beginning in 2026): $26,000
  - Reserve Policy: Maintain at least $50,000 in reserves

To fund Pump House Replacement in 2026 (estimated cost of $396,000)

Financial Plan – Mill Creek Glen Water System



Water Rate Forecast	Existing	Proposed						
	2021	2022	2023	2024	2025	2026	2027	Cumulative
Annual Rate Increase		**120.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**142.9%**
Monthly Residential Bill @ 3 ccf*	$62.40	$137.28	$140.02	$142.82	$145.67	$148.58	$151.57	
Change From Prior Year		+$74.88	+$2.74	+$2.80	+$2.85	+$2.91	+$2.99	+$89.17

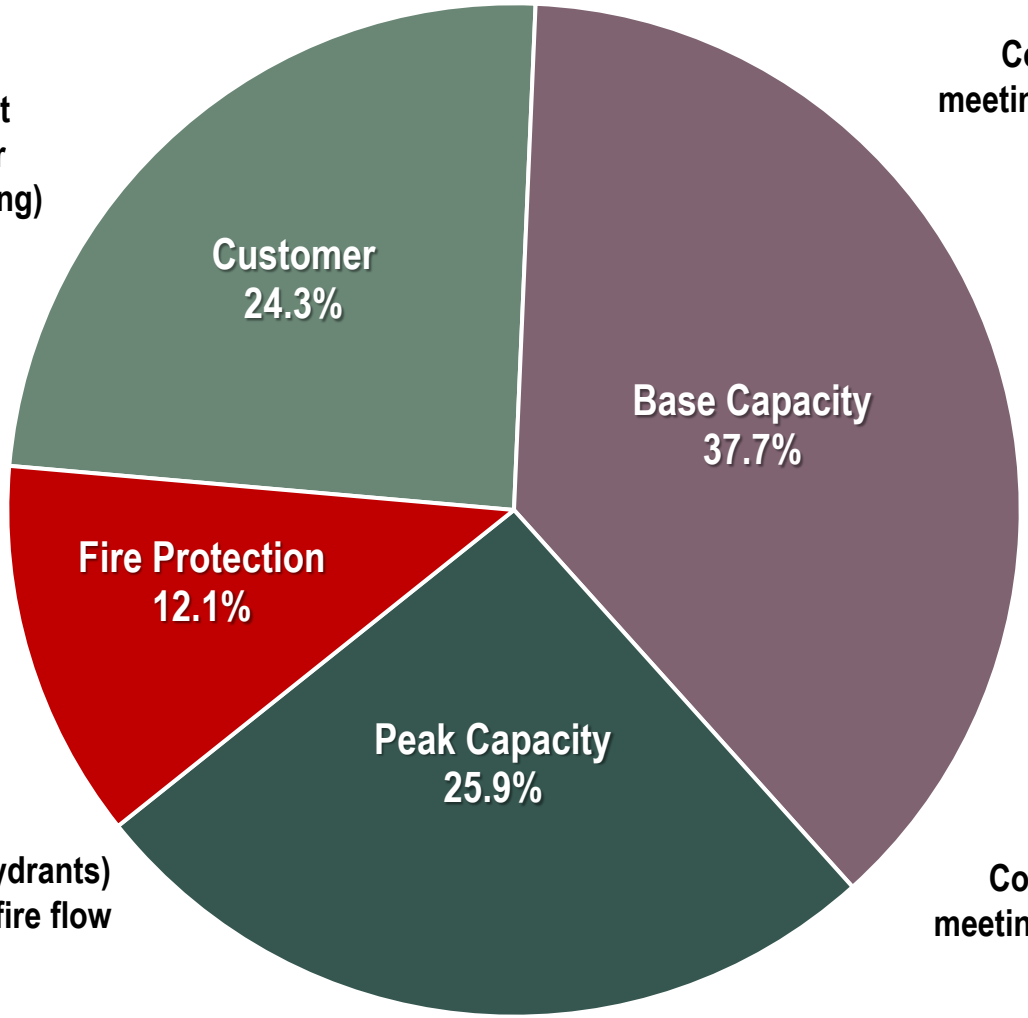
*Average monthly usage of Mill Creek Glen customers

- **Rate increases needed to fund maintenance projects and related debt service**

Summary of Functional Cost Allocation (2022)

Customer:
Fixed costs that do not vary with meter size or usage (e.g., utility billing)

Base Capacity:
Costs associated with meeting average demands



Fire Protection:
Costs related to:

- Direct fire protection (Hydrants)
- Oversizing facilities for fire flow (mains, reservoirs)

Peak Capacity:
Costs associated with meeting incremental peak demands

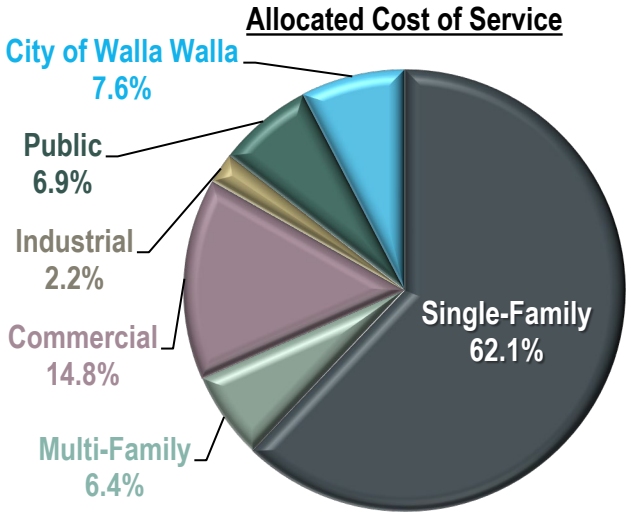
Allocating Water Costs to Customer Classes

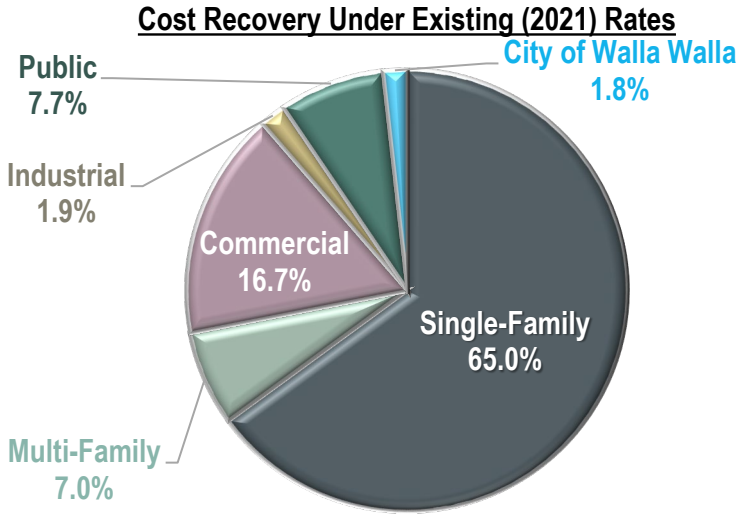
	Customer	Base Capacity	Peak Capacity	Fire Protection
Allocation Basis	Accounts	Annual Use	Summer Use	Weighted Accounts*
% of 2022 Revenue Requirement	24.3%	37.7%	25.9%	12.1%
Allocation of 2022 Revenue Requirement:				
Single-Family	86.9%	48.9%	50.2%	78.8%
Multi-Family	2.5%	9.4%	7.5%	2.3%
Commercial	9.0%	16.6%	15.8%	18.6%
Industrial	0.1%	3.6%	3.0%	0.3%
Public	0.8%	10.9%	10.1%	0.0%
City of Walla Walla	0.7%	10.6%	13.4%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

***Fire protection costs are allocated based on number of accounts, weighted based on fire flow requirement**

- 1,750 gpm for residential
- 4,000 gpm for non-residential

Allocation of 2022 Revenue Requirement





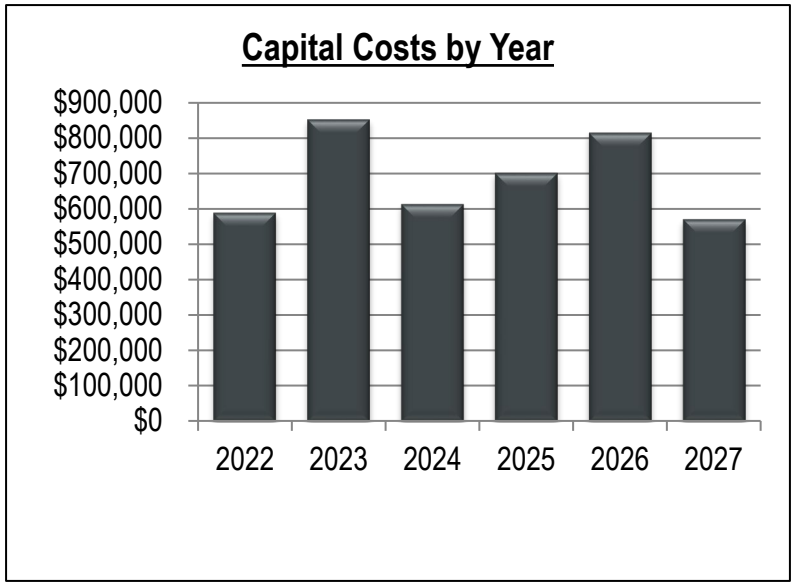
Allocation of 2022 Revenue Requirement	Customer	Base Capacity	Peak Capacity	Fire Protection	Total	Total Under 2021 Rates	% Change
Single-Family	$2,906,279	$2,535,199	$1,789,008	$1,314,031	$ 8,544,518	**$ 8,681,779**	**-1.6%**
Multi-Family	83,176	485,483	268,357	37,607	874,622	**931,173**	**-6.1%**
Commercial*	295,206	847,548	554,381	305,081	2,002,214	**2,188,169**	**-8.5%**
Industrial*	10,148	204,374	118,085	10,488	343,095	**304,847**	**+12.5%**
Public*	26,654	565,434	360,782	-	952,870	**1,025,184**	**-7.1%**
City of Walla Walla	22,488	547,937	478,485	-	1,048,910	**234,119**	**+348.0%**
Total	**$3,343,950**	**$5,185,975**	**$3,569,098**	**$1,667,206**	**$13,766,229**	**$13,365,271**	**+3.0%**

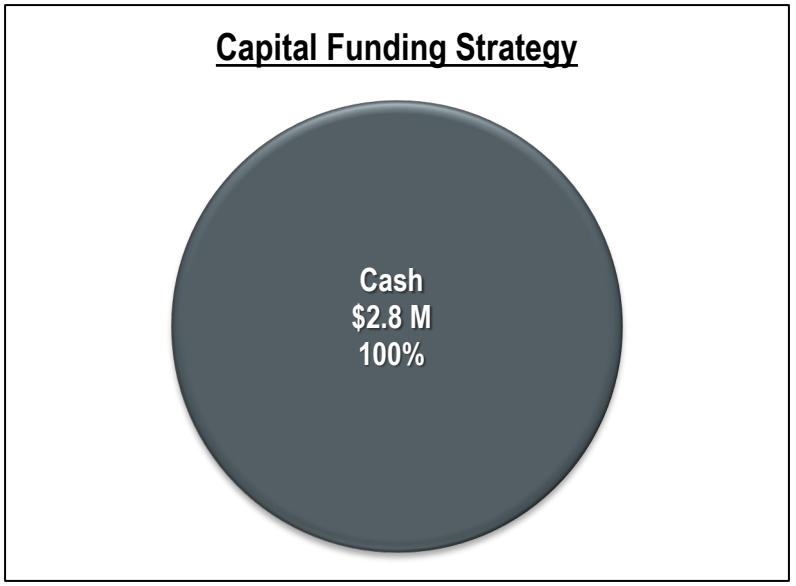
*Reflects proposed reclassification of beverage producers with > 120,000 gallons per year as industrial users

Stormwater Rate Analysis

- Financial Plan
- Rate Structure Analysis

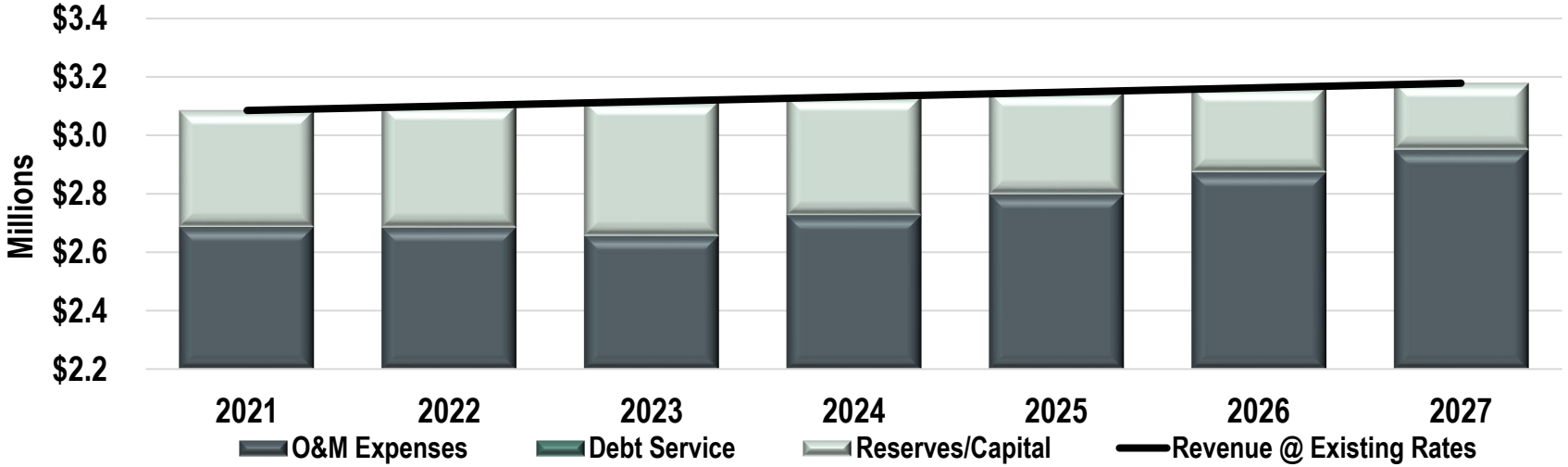
Stormwater Capital Needs Forecast





- **$4,144,000 in capital projects from 2022 – 2027**
- **Cash resources expected to fully cover the projected cost**

Stormwater Financial Plan



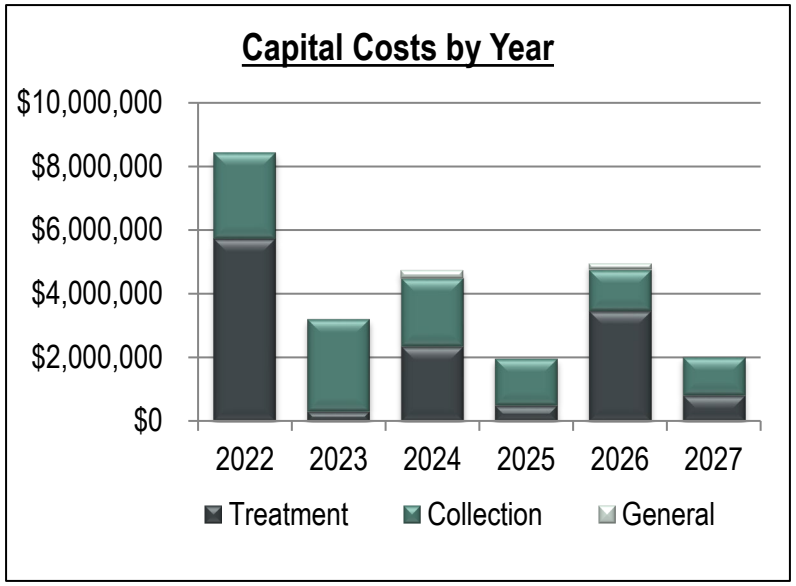
Stormwater Rate Forecast	Existing	Proposed						
	2021	2022	2023	2024	2025	2026	2027	Cumulative
Annual Rate Increase		**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Monthly Residential Bill	$13.40	$13.40	$13.40	$13.40	$13.40	$13.40	$13.40	
Change From Prior Year		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00

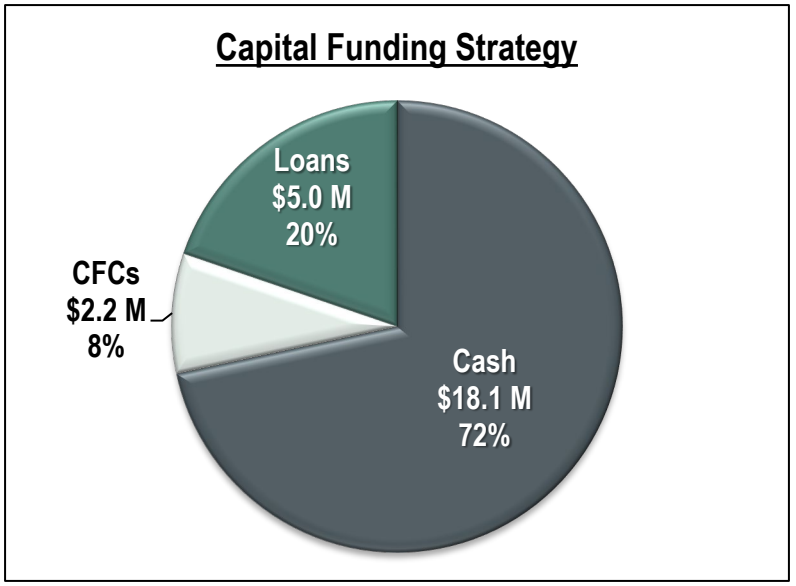
- **Existing rates expected to be adequate to cover costs through study period**
  - » Includes funding to support urban forestry program

Wastewater Rate Analysis

- **Financial Plan**
  - » Recommended CIP
  - » Alternative Scenarios
- **Cost-of-Service Analysis**

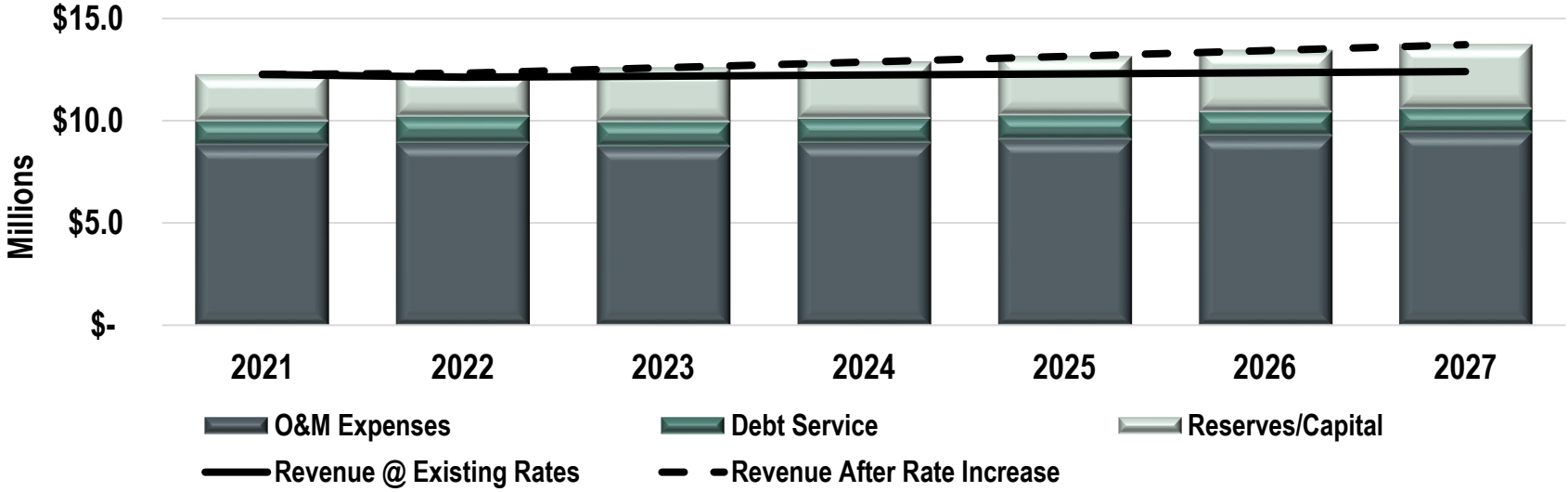
Wastewater Capital Needs Forecast





- **$25,307,000 in capital projects from 2022 – 2027**
  - » Treatment: $13,152,000
  - » Collection: $11,730,000
  - » Planning/General: $425,000
- **Cash resources expected to cover 80% of the projected cost**
  - » Remaining 20% funded by $5.0 million PWTF Loan
    - – Expected to increase annual debt service by roughly $300,000

Wastewater Financial Plan (Recommended CIP)



Wastewater Rate Forecast	Existing	Proposed						
	2021	2022	2023	2024	2025	2026	2027	Cumulative
Annual Rate Increase		**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**12.6%**
Monthly Residential Bill	$58.60	$59.77	$60.97	$62.19	$63.43	$64.70	$65.99	
Change From Prior Year		+$1.17	+$1.20	+$1.22	+$1.24	+$1.27	+$1.29	+$7.39

- **Existing rates expected to be adequate to cover costs during study period**
- **Rate increases needed to generate cash for capital projects**

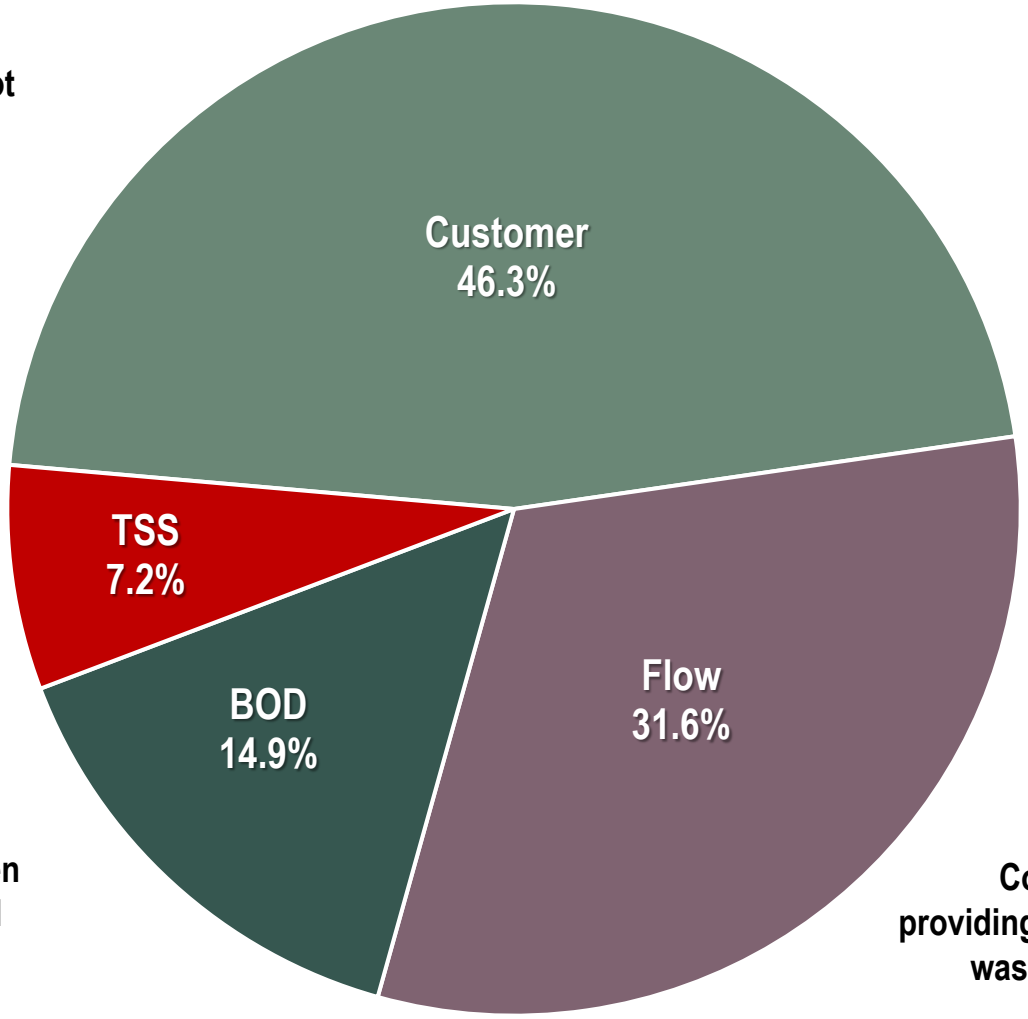
Wastewater Financial Plan Scenarios

Scenario	Description	Monthly Residential Wastewater Bill					
		2022	2023	2024	2025	2026	2027
Existing Rates	Currently adopted rates (2021)	$58.60	$58.60	$58.60	$58.60	$58.60	$58.60
Recommended CIP	No changes to O&M; CIP as recommended	+$1.17	+$2.37	+$3.59	+$4.83	+$6.10	+$7.39
Delayed CIP	Delay $7.2 million of capital spending to after 2027	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Suspend FOG Program	Remove budgeted FOG program costs	$0.00	$0.00	-$0.31	-$0.62	-$0.95	-$1.28

- **Adjustments to 2022 – 2027 CIP for 'Delayed CIP' Scenario:**
  - » Keep participation in TBD projects, including one other collection project due to likelihood of failure
  - » Reduces other collection project funding to $600,000 per year
  - » Treatment projects reduced to the maximum extent possible
  - » General projects already reduced to the extent possible (regulatory and financial planning only)

Summary of Functional Cost Allocation (2027)

Customer:
Fixed costs that do not vary with wastewater volume/strength (e.g., utility billing)



Strength (BOD/TSS):
Costs associated with providing capacity to treat biochemical oxygen demand (BOD) and total suspended solids (TSS) in wastewater

Flow:
Costs associated with providing capacity to convey wastewater to treatment facilities

Wastewater Customer Classes

Existing	Proposed
• Residential (Including Duplexes) • Multiple-Dwelling (3+ Dwelling Units) • Commercial • Industrial • Public • City of Walla Walla • Port of Walla Walla (Regional Airport)	• Residential (Any Number of Dwelling Units) • Non-Residential • High-Strength Industrial » Refresco (Based on Historical Discharges) » Port of Walla Walla (Regional Airport) » Beverage Production Industries » Other Large-Volume Users w/BOD > 300 mg/L

- **Existing rate structure imposes different rates on each class**
- **Recommended structure groups users based on differences in wastewater strength**
  - » Residential wastewater strength based on system planning criteria
  - » Beverage production industry wastewater strength based on industry data
  - » Wastewater strength for large permit users based on direct sampling
  - » Non-residential strength = difference between total loadings and loadings attributed to other users

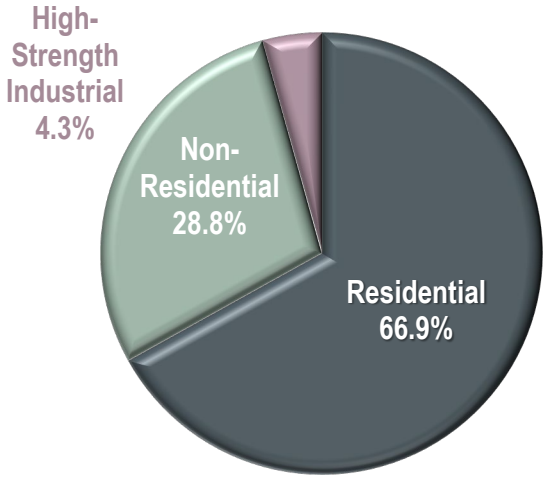
Allocating Wastewater Costs to Customer Classes

	Customer	Flow	BOD	TSS
Allocation Basis	Accounts	Estimated Flow	Est. Max. Month BOD	Est. Max. Month TSS
% of 2027 Revenue Requirement	46.3%	31.6%	14.9%	7.2%
Allocation of 2027 Revenue Requirement:				
Residential	93.4%	50.5%	34.6%	35.4%
Non-Residential	6.4%	42.1%	39.7%	59.4%
Refresco[1]	0.1%	5.8%	2.9%	0.5%
High-Strength Industrial (BOD > 300 mg/L)	0.1%	1.7%	22.8%	4.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

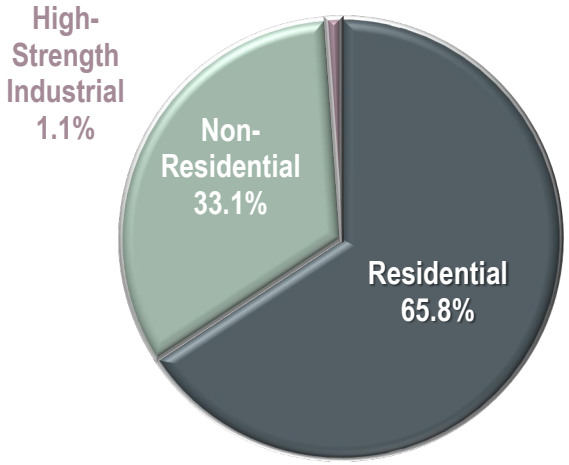
[1]Refresco assumed to be high-strength industrial for 2022, reducing its BOD to non-residential levels by 2023.

Allocation of 2027 Revenue Requirement

Allocated Cost of Service



Cost Recovery Under Existing (2021) Rates



Allocation of 2027 Revenue Requirement	Customer	Flow	BOD	TSS	Total	Total Under 2021 Rates	% Change
Residential	$5,928,633	$2,187,525	$ 706,880	$347,298	$ 9,170,336	**$ 8,002,147**	**+14.6%**
Non-Residential	409,342	2,074,109	868,264	587,352	3,939,096	**4,028,409**	**-2.2%**
High-Strength Industrial	7,750	71,953	465,499	46,240	591,441	**135,427**	**+336.7%**
Total	**$6,345,724**	**$4,333,586**	**$2,040,673**	**$980,889**	**$13,700,873**	**$12,165,983**	**+12.6%**

6 years of 2% annual revenue increases

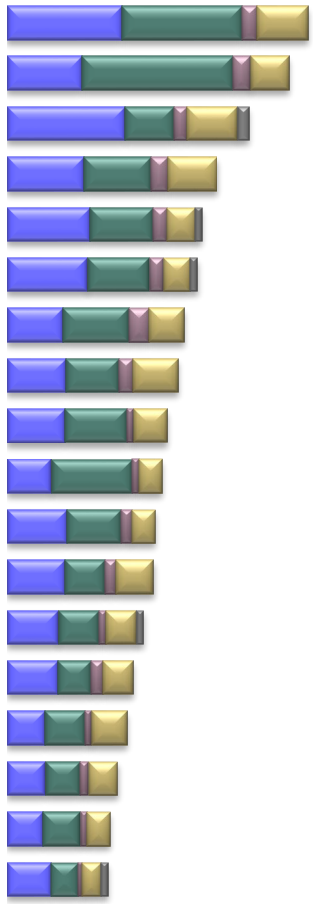
Proposed Rates: Six-Year Phase-In to Full COS

Monthly Base Rates	Existing	2022	2023	2024	2025	2026	2027
Residential							
1 – 2 Units, Per Unit	$58.60	$59.63	$62.23	$63.63	$64.94	$66.13	$67.15
3+ Units, Per Unit	$35.10	$35.71	$37.27	$38.11	$38.90	$39.61	$40.22
Commercial	$57.30						
Industrial	$73.40						
Public	$69.10						
City of Walla Walla	$17.20						
Non-Residential		$55.87	$55.87	$55.87	$55.87	$55.87	$55.87
High-Strength Industrial		$76.39	$96.53	$123.41	$157.79	$201.73	$257.91

Consumption Rates per ccf	Existing	2022	2023	2024	2025	2026	2027
Residential	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Commercial	$5.00						
Industrial	$6.00						
Public	$5.60						
City of Walla Walla	$1.68						
Non-Residential		$5.14	$5.23	$5.23	$5.23	$5.23	$5.23
High-Strength Industrial		$7.54	$9.16	$11.71	$14.96	$19.13	$24.45

Sample Bill Comparison (3/4" Residential Meter @ 15 ccf/Month)

	Population	Water	Wastewater	Stormwater	Sanitation	Recycling	Total
Oak Harbor	23,089	$108.45	$113.55	$14.22	$48.59	Included	$284.81
Port Angeles	19,832	$70.75	$142.47	$17.01	$36.34	Included	$266.57
Mount Vernon[2]	35,026	$111.58	$46.45	$12.25	$47.55	$10.62	$228.45
Olympia	51,534	$72.34	$63.75	$15.64	$46.37	Included	$198.10
Walla Walla (2022 Proposed)[1]	32,986	$78.20	$59.63	$13.40	$26.73	$6.01	$183.97
Walla Walla (Existing)[1]	32,986	$75.80	$58.60	$13.40	$25.20	$7.01	$180.01
Bremerton[2]	40,631	$52.83	$62.23	$19.03	$32.85	Included	$166.94
Puyallup[2]	40,991	$55.72	$49.81	$13.18	$42.49	Included	$161.20
Bend, OR[2]	106,023	$54.61	$58.60	$6.20	$31.88	Included	$151.29
Yakima	93,413	$41.65	$76.25	$6.44	$21.85	None	$146.19
College Place[2]	9,358	$56.41	$51.41	$9.75	$22.43	None	$140.00
Ellensburg	21,579	$54.60	$37.55	$10.88	$35.34	Included	$138.37
Pullman	33,598	$48.33	$38.15	$7.00	$28.65	$6.70	$128.83
Wenatchee	34,188	$47.66	$31.41	$11.31	$28.69	Included	$119.07
Moses Lake	23,056	$35.53	$37.97	$6.08	$33.30	Included	$112.88
Redmond, OR	35,439	$35.93	$32.58	$8.18	$27.44	Included	$104.13
Pasco	72,899	$33.75	$35.38	$6.52	$21.60	None	$97.25
Richland	56,399	$41.50	$25.60	$3.85	$17.50	$6.60	$95.05
Average		$59.76	$56.74	$10.80	$31.93	$7.39	$161.28



[1]Walla Walla's bills include $36.52 per month for Infrastructure Repair & Replacement Program (IRRP) contributions.
[2]Residences in these jurisdictions are billed based on winter-average water consumption (5 ccf for this comparison).

Capital Facilities Charge (CFC) Analysis

- Water CFCs
- Wastewater CFCs

Capital Facilities Charges (CFCs)

- **The CFC is a connection charge that:**
  - » Is imposed on development to recover an equitable share of system costs
  - » Is based on the cost of existing assets and future capital projects
  - » Provides a source of funding for capital projects and / or debt service
- **General Methodology:**

$$CFC = \frac{\text{Existing System Cost} + \text{Future Project Cost}}{\text{Existing Customers \& Future Growth}}$$

Key steps:

- – Define the "cost of the existing system"
- – Compute interest accrued on existing assets
- – Define the capital improvement program
- – Define the applicable customer base

The CFC calculation should only include costs funded by the utility.

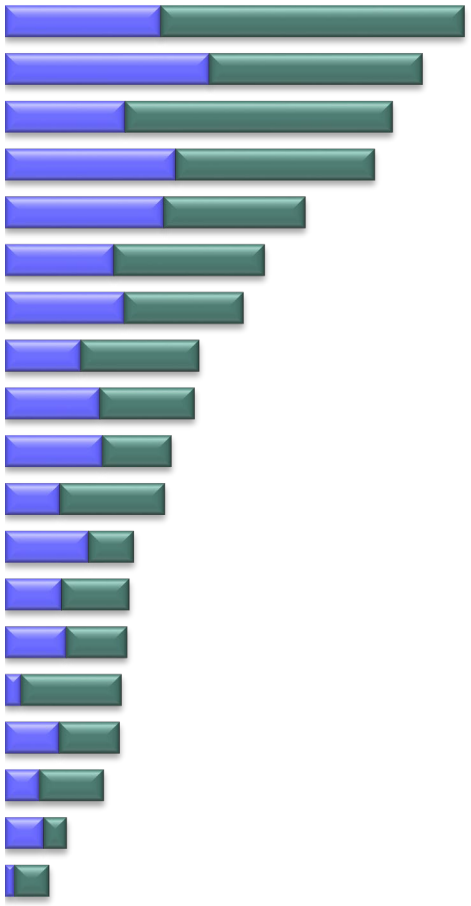
Capital Facilities Charges (CFCs)

CFC Calculation	Water	Wastewater
Existing Cost Basis ($000s)		
Plant-In-Service as of 12/31/20	$85,391	$92,937
Less: Contributed/Grant-Funded Assets	(1,841)	(560)
Less: Provision for Asset Retirements from CIP	(8,597)	(8,500)
Plus: Interest on Utility-Funded Assets	15,422	31,653
Less: Net Outstanding Debt Principal	(10,612)	(4,166)
Net Existing Cost Basis ($000s)	**$79,763**	**$111,364**
Future Cost Basis ($000s)		
Planned Future Project Costs (Uninflated)	$33,834	$37,002
Less: Grants/Contributions	(3,635)	-
Net Future Cost Basis ($000s)	**$30,199**	**$37,002**
Total Cost Basis	**$109,962**	**$148,366**
Total Customer Base In Meter Equivalents/ERUs	**19,153**	**13,249***
Total Charge Per Meter Equivalent/ERU	**$5,741**	**$11,198**
Existing CFC Per Meter Equivalent/ERU	***$4,400***	***$4,400***

*Wastewater ERUs defined by BOD capacity, which may increase due to (a) City efforts to get the capacity of its WWTP rerated, (b) changes in demands of large industrial users, and (c) potential expansion of capacity in the future.

CFC Survey (3/4” × 3/4” Residential Meter)

	Water	Wastewater	Total
Walla Walla (2021 Calculation)	$5,741	$11,198	$16,939
Mount Vernon	$7,530	$7,859	$15,389
Olympia	$4,433	$9,860	$14,293
Bremerton	$6,291	$7,342	$13,633
Bend, OR	$5,857	$5,223	$11,080
Puyallup	$4,020	$5,560	$9,580
Walla Walla (Existing)	$4,400	$4,400	$8,800
Redmond, OR	$2,802	$4,371	$7,173
College Place	$3,500	$3,500	$7,000
Ellensburg	$3,600	$2,550	$6,150
Longview	$2,031	$3,874	$5,905
Oak Harbor	$3,081	$1,680	$4,761
Richland	$2,100	$2,495	$4,595
Port Angeles	$2,260	$2,260	$4,520
Wenatchee	$600	$3,710	$4,310
Pullman	$2,001	$2,239	$4,240
Yakima	$1,278	$2,377	$3,655
Moses Lake	$1,435	$856	$2,291
Pasco	$360	$1,288	$1,648



Summary of Recommendations

- **Water Rates: Aggregate revenue increases of 2 – 3% per year, phase to cost of service over 6 years**
- **Wastewater Rates: Aggregate revenue increases of 2% per year, phase to cost of service over 6 years**
- **CFCs:**

CFC per ME/ERU	Existing	Proposed					
	2021	2022	2023	2024	2025	2026	2027
Water	$4,400	$4,560	$4,725	$4,896	$5,074	$5,258	$5,449
Wastewater	$4,400	$4,560	$4,725	$4,896	$5,074	$5,258	$5,449
Total	$8,800	$9,119	$9,450	$9,793	$10,148	$10,516	$10,897

  - » Index CFCs annually using 6-year average of ENR CCI (20-city average, Sep. to Sep.)
    - – September 2015 – September 2021 Average Annual Inflation: ≈ 3.63% per year
  - » Cap at maximum charges (Water: $5,741; Wastewater: $11,198)
  - » Recalibrate calculations every 6 years

Thank You! Questions?

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